

**LHFA Insurance Cost Initiative**  
**Term Sheet for Operating Deficit Loan Program**  
**To be Delivered through OCD**  
**Final (posted March 22, 2007)**

*A three year program, to cover 100% of Excess Insurance Costs, subject to a \$1000 per unit Annual Funding Cap. The program will be fully funded on a worst-case basis. As the end of the program term approaches, LHFA and OCD will decide how to utilize any remaining funding -- to extend the program, to fund a similar follow-on program, or for other CDBG-eligible activities.*

**Program Objectives**

1. Enable '06-'07-'08 tax credit awardees within the GO Zone to obtain financing, commence construction, and place units in service timely.

**Program Mechanisms**

- A. Below-market-interest-rate, deferred payment, junior loans to cover a portion of insurance-related Surplus Cash deficits.

**Program Parameters**

- **Funding**
  - The amount of funding reserved will be \$3000 times the total number of units in Accepted Projects, not to exceed \$45 million.
- **Eligible Projects.**
  - '06 applicants awarded GO Zone Credits in 2006 Round 1 or 2.
  - '06 applicants awarded GO Zone Credits in the \$10M forward-allocated pool for Orleans Parish and in the \$22.4M forward-allocated pool for Parishes other than Orleans.
  - '07-'08 applicants awarded GO Zone Credits.
  - Re-processed projects awarded GO Zone Credits.
  - Bond-financed projects are not eligible.
- **Program Term**
  - The program will provide loan funds to Accepted Projects until the earlier of (a) disbursement of all funding; and (b) June 30 following the completion of the Accepted Project's final Funding Year.
    - *Note -- if a project is placed in service in 2008, its third and final Funding Year will end December 31, 2010 and the audited financial statements for that year will be due to LHFA and OCD in the spring of 2011. If the GO Zone placed-in-service deadline for bonus basis is extended, LHFA and OCD will extend the Program Term as needed on a case by case basis.*

- Loans created under the program will have an outside maturity date of 35 years, which will run from the date the Note is executed.
- **Program Income During Program Term** -- program income (e.g. loan repayments) received through the end of the Program Term will be reinvested in the Program.
- **CDBG Compliance** – same as for Piggyback Gap Financing Loans, except that OCD understands that:
  - Davis-Bacon will not be applicable for Operating Deficit Loans, and
  - Accepted Projects that did not originally contemplate use of CDBG funds will not be subject to an Environmental Assessment under 24 CFR Part 58.

**Proposed Program Design** (see Definitions below)

1. **Loan Amount.** The aggregate of annual amounts funded during the Funding Period, with a maximum loan amount of \$3000 per unit. With respect to an Accepted Project, for each Funding Year, the annual amount funded will be the lowest of:
  - a. Excess Insurance Costs.
  - b. The actual audited Surplus Cash deficit.
  - c. The Annual Funding Cap.
2. **Process for Funding Annual Loan Amounts during the Funding Period.**
  - a. Example of timing (for first year, the subsequent two years would be the same except for steps ii and iii).
    - i. Insurance is purchased June 30, 2008.
    - ii. First occupancy July 15, 2008.
    - iii. All units placed in service October 31, 2008.
    - iv. Audit for 2008 is due to LHFA April 30, 2009. Owner provides a copy to OCD at the same time.
    - v. If there is a Surplus Cash deficit, and if actual premiums exceeded those anticipated in the QAP application, the funding request is due to OCD May 31, 2009.
    - vi. OCD would disburse funds to the owner not later than June 30, 2009.
  - b. During the loan term, each Accepted Project must submit a copy of its audited financial statements to OCD at the same time the statements are submitted to LHFA.
  - c. Each Accepted Project with negative Surplus Cash and Excess Insurance Cost with respect to a Funding Year is eligible for an annual funding amount.
  - d. Within 30 days after submission of audited financial statements to LHFA and OCD, the owner of an Accepted Project that is eligible for an annual funding amount must submit a funding request to OCD. *Owners that are not eligible for funding need not submit a funding request to OCD for that Funding Year.*
  - e. OCD will provide the annual funding amount within 30 days after receipt of a complete funding request. *Audited financials are due to LHFA by April 30, so annual funding amounts would be provided by June 30.*

- f. The funding request will include copies of insurance policy Declarations pages showing the most recently paid annual premium amounts and coverage limits for each policy for Eligible Insurance.
3. **Loan Terms.** *The following are consistent with Piggyback Gap Financing Loans*
  - a. Interest rate, at the option of the borrower (this option will be exercised in the initial program application), either:
    - i. 0% simple interest; or
    - ii. AFR, compound interest.
  - b. Deferred Payments. Payments are deferred until the project has positive Surplus Cash.
  - c. Payments are one-third of the first \$1000 per unit of Surplus Cash, plus two-thirds of remaining Surplus Cash.
  - d. Outside maturity 35 years.
  - e. Acceleration on sale, refinance, or default.
  - f. If a project has a CDBG Gap Financing Loan and an Operating Deficit Loan, payments will be applied first to the Operating Deficit Loan.
  - g. Loan documents will be based on Piggyback Gap Loan documents: ODLP Award Acceptance Agreement, Operating Deficit Note, Operating Deficit Mortgage, CDBG Regulatory Agreement.
4. **Criteria for Acceptance of an Eligible Project.** *OCD anticipates issuing Award Acceptance Agreements on or before April 25, 2007. OCD anticipates processing applications as they are received. The time allowed for processing includes a completeness and eligibility check, a determination of Original Estimated Insurance Costs (i.e., whether the QAP application amount included amounts for insurance that is not Eligible Insurance), a determination of the deductible amounts and coverage limits reflected in the Original Estimated Insurance Costs, preparation of the award, legal review of the proposed award, and OCD approval to issue the award.*
  - a. Eligible Project.
  - b. OCD approval of written application.
  - c. Agreement to satisfy the Permanent Supportive Housing Requirement (if applicable).
  - d. Documentation to support the insurance expense estimate included in the Eligible Project's QAP application.
  - e. Documentation of current costs for Eligible Insurance.
  - f. See the form of application attached to this Term Sheet.
  - g. After the owner executes the Award Acceptance Agreement, OCD and the owner will prepare and execute the Note, Mortgage and Use Agreement. The owner will execute the PSH Set-Aside Agreement upon the request of the Local Lead Agency.
5. **Permanent Supportive Housing Requirement.**
  - a. Accepted Projects That Have Already Made a PSH Commitment (for at least 5.0% of total units) – no additional PSH requirement.
  - b. Other Accepted Projects –

- i. At least 5.0% of total units for PSH.
- ii. PSH Affordability – PSH units must be affordable to households with incomes at or below 30% AMI.
- iii. PSH Affordability Gap – if the affordability commitment reflected in the QAP application is not sufficient to meet either the number of PSH units or PSH affordability requirements, OCD may either:
  - 1. Make available State Project Based Rental Assistance sufficient to close the PSH affordability gap; or
  - 2. Waive some or all of the number of PSH units requirement and/or some or all of the PSH affordability requirement.
- iv. PSH Set-Aside Agreement – execution of the standard form PSH Set-Aside Agreement between the owner of the Eligible Project and the Local Lead Agency.
- v. Duration – the initial PSH Set-Aside Agreement will be for five years and will contain a clause requiring the owner to accept renewal on same terms, if offered, for a term ending not later than the expiration date of the CDBG Use Agreement.

## 6. **Definitions.**

- a. Accepted Project – an Eligible Project whose owner applies for, and is accepted by OCD for, the Program.
- b. Annual Funding Cap – \$1000 per unit. This amount will remain the same for each year in the Funding Period.
- c. Eligible Insurance – flood insurance, casualty insurance (including wind and fire), and general liability insurance with respect to completed construction. Builders risk insurance, workers compensation insurance, health insurance and other employee benefits are not eligible.
- d. Eligible Insurance Costs – annual premiums actually paid by an Accepted Project during a Funding Year for Eligible Insurance (without regard to the relationship between the policy period and the calendar year). Eligible Insurance Costs are limited to premiums for coverage that is consistent with the levels of coverage assumed in the owner's QAP application.
- e. Excess Insurance Costs – the excess, if any, of Eligible Insurance Costs over Original Estimated Insurance Costs.
- f. Funding Period -- three years beginning January 1 of the year in which the first unit in the Accepted Project is placed in service.
- g. Funding Year – each of the three calendar years during the Funding Period.
- h. Original Estimated Insurance Costs – the amount included in an Accepted Project's QAP application for Eligible Insurance. OCD will not apply any inflation adjustment to this amount.
- i. Surplus Cash – the difference between (a) cash and other short term assets, and (b) accounts payable and other short term obligations, as defined by LHFA.